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Best Practices Review

December 6, 2007

Best Practices for Audit and
Financial Advisory Committees Within
the Department of Defense
Report No. D-2008-6-001

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December 6, 2007

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Best Practices for Audit and Financial Advisory Committees Within the
Department of Defense (Project No. D2007-DIP0AI-0072)

We are providing this best practices report for your information and use. We have incorporated draft report comments received from the Marine Corps, Personal and Family Readiness Division; Missile Defense Agency; and the Defense Finance and Accounting Service in the report. This report contains no recommendations; therefore, written comments were not required.

A trifold brochure entitled, "Best Practices for Effective Audit Advisory Committees," will be available on our Web site shortly (www.dodig.osd.mil). The brochure highlights significant best practices described in this report. We encourage individuals within your organization that are members or advisors to a financial audit advisory committee or committee for audit preparedness review the highlighted information.

We appreciate the courtesies extended to the staff. Comments or questions should be directed to Mr. Robert Kienitz at (703) 604-8754 (DSN 664-8754), Robert.Kienitz@dodig.mil. See Appendix K for the report distribution.

A handwritten signature in black ink, reading "Wayne C. Berry", is positioned above the printed name.

Wayne C. Berry
Acting Assistant Inspector General
for Audit Policy and Oversight

cc:

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Foreword

On March 6, 2003, the Under Secretary of Defense (Comptroller)/Chief Financial Officer issued a memorandum entitled “Establishment of Financial Statement Audit Committees,” which directed the establishment of audit committees within the Department. DoD Financial Management Regulation, Volume 6B, Chapter 1, January 2006, defined the purpose and responsibilities of committees helping with audit preparedness and committees performing financial audit oversight. DoD required committees for audit preparedness to make recommendations to help their organizations improve business operations through improvements to financial reporting processes and procedures. The Department required financial audit oversight advisory committees to provide independent oversight of an organization’s annual financial statement audit, risk management plan, internal control framework, and compliance with external requirements.

During our review, we identified best practices for financial audit advisory committees within DoD, other Federal agencies, and the public and private sectors (refer to Appendix A for a list of organizations that participated in this review). This document contains the DoD Office of Inspector General suggested best practices for audit and financial advisory committees within DoD. The best practices were designed to assist DoD agencies in preparing financial statements and conducting the annual financial statement audit mandated by the Chief Financial Officer’s Act of 1990. Some best practices were included in this report because of requests and suggestions from DoD committee members and advisors. Areas of interest within DoD were methods to evaluate committee performance, roles and responsibilities of the committee when performing oversight of a financial statement audit, and strategies to recruit committee members. The document also contains guidance on other topics such as developing a charter, developing a mission statement, and evaluating committee members’ qualities and expertise.

Financial audit advisory committees benefit an organization either by assisting with audit preparedness or by providing increased confidence in the credibility of the organization’s financial statements. We recognize that DoD committees may not be following all of the best practices described in this document because the committees are relatively new. If effectively designed, the committee can be a strategic partner in conducting quality audits, preparing auditable financial statements, and improving business operations. Within this best practices document, we have provided you with a framework for establishing, operating, and evaluating a financial audit advisory committee for committees focused on audit preparedness and committees focused on financial statement audit oversight.

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Introduction

Objective

The objective of the review was to identify criteria, purposes, and best practices for operations of audit and financial advisory committees that would benefit DoD in preparing auditable financial statements and conducting the annual financial statement audit mandated by the Chief Financial Officer's Act of 1990.

Background

In 1972, the U.S. Securities and Exchange Commission recommended that publicly held companies establish audit committees composed of independent directors. By 1974, the Securities and Exchange Commission began to require public disclosure of the independence of audit committee members. In 1998, the public stock exchanges sponsored a Blue Ribbon Committee to study how audit committees could be more effective.

Blue Ribbon Committee on Audit Committees. The Blue Ribbon Committee recommended that companies establish independent audit committees with a minimum of three financially literate members and one financial expert member. Additionally, the Blue Ribbon Committee recommended that audit committees adopt a formal charter to describe their role in internal control activities¹. The Securities and Exchange Commission and public stock exchanges adopted the requirement for independent audit committee members soon after the report was issued.

Sarbanes-Oxley Act. In response to numerous corporate accounting scandals, which diminished public trust in accounting and reporting practices, Congress passed the Sarbanes-Oxley Act in 2002. This legislation increased audit committees' responsibilities and authority, increased committee membership requirements, and required greater independence of committees for publicly traded companies.

Government Auditing Standards. The January 2007 Revision of Government Auditing Standards acknowledges the role of audit committees in corporate governance. The standards contain the following guidance:

“Those charged with governance have the duty to oversee the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process, subject matter, or program under audit including related

¹ Internal control comprises the plans, policies, methods, and procedures to meet the organization's mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management's system for measuring, reporting on, and monitoring program performance.

internal controls.... In some entities, multiple parties may be charged with governance, including oversight bodies, members or staff of legislative committees, boards of directors, audit committees, or parties contracting the audit.”

DoD Guidance on Financial Audit Advisory Committees

On March 6, 2003, the Under Secretary of Defense (Comptroller)/Chief Financial Officer issued a memorandum entitled “Establishment of Financial Statement Audit Committees.” The memorandum directed the establishment of audit committees for 21 DoD entities (refer to Appendix B for a complete listing). The memorandum also required the DoD Office of the Deputy Financial Officer, the DoD Office of Inspector General, and the Defense Finance and Accounting Service to provide representation on each committee.

Financial Management Regulation. DoD Financial Management Regulation, Volume 6B, Chapter 1, January 2006, provides additional guidance regarding audit committees. The Financial Management Regulation states that the purpose of the audit committee is to establish audit requirements, identify contract deliverables, monitor the execution of the contract, and identify and assist with the resolution of obstacles to an unqualified opinion. When the organization is prepared for audit, the committee’s purpose is to provide a forum for researching, recommending, and issuing guidance on accounting and auditing issues. Beyond clarifying the purpose of audit committees, the guidance required the establishment of the following additional audit committees:

- United States Special Operations Command,
- Tricare Management Activity, and
- Service Medical Activity.

Memorandum of May 15, 2007. On May 15, 2007, the Under Secretary of Defense (Comptroller)/Chief Financial Officer issued a memorandum titled, “Establishment of the Audit and Financial Management Advisory Committee,” to establish the DoD Audit and Financial Management Advisory Committee, which will operate under the provisions of the Federal Advisory Committee Act of 1972. The memorandum states that the committee will provide independent advice and recommendations to DoD on financial management, including the financial reporting process, systems of internal controls, the audit process, and processes for monitoring compliance with applicable laws and regulations. The committee is not to make decisions, conduct DoD operations, or perform functions that can be completed by or with existing DoD resources.

Definition and Roles of Financial Audit Advisory Committees within DoD.² A financial audit advisory committee within DoD is generally responsible for providing independent oversight of an organization’s annual financial statement audit, risk management plan, internal control framework, and compliance with external requirements. Acting in an advisory role, the committee promotes independence, facilitates communication between management and the independent public accountant,³ and enhances accountability. The scope of each committee’s work varies depending on the status of financial management within the organization.

Definition of Audit Preparedness Committee within DoD. Financial audit advisory committees generally serve one of two functions: audit preparedness or financial statement audit oversight. Committees for audit preparedness provide oversight and make recommendations to help the organization improve business operations through improvements to financial reporting processes and procedures. The scope of each committee’s work depends on the status of financial management within the organization. When the entity is prepared to undergo a financial statement audit, the committee’s focus shifts from audit preparedness to oversight of the financial statement audit, and the committee assumes additional oversight and advisory responsibilities.

Highlights of DoD Financial Audit Advisory Committees

We reviewed 16 committees. Of those, 13 were established by DoD guidance. We looked at three additional committees – Navy Morale, Recreation and Welfare and Navy Exchange Service; the Marine Corps, Personal and Family Readiness Division; and Defense Contract Management Agency – the first two because they use nonappropriated funds and the third because it formed a committee on its own initiative. During our review, we identified best practices for financial audit advisory committees within DoD, other Federal agencies, and the public and private sectors. This document summarizes information obtained through interviews with audit committee members, advisors, and published best practices. We have used documentation obtained from audit committees at the Department of the Air Force, Defense Commissary Agency, U.S. Small Business Administration, U. S. Holocaust Memorial Museum, and the U.S. Postal Service, to develop sample documents included in the appendixes.

² The terms financial audit advisory committee and audit committee are used interchangeably in this document. Both terms refer to committees that are acting as advisors to help organizations improve their financial reporting processes and business operations.

³ To differentiate among the terms internal auditor, external auditor, and Inspector General, we have used the term “independent public accountant” to refer to the external auditor selected to conduct the financial statement audit.

During our reviews with representatives from 16 DoD audit committees, we identified numerous innovative best practices and audit preparedness approaches. Of the 16 committees reviewed, 10 focused on audit preparedness, while 6 performed oversight of the financial statement audit. The table below indicates the focus of each committee we reviewed.

Focus Areas of DoD Audit Committees

DoD Organization	Audit Preparedness	Financial Statement Audit Oversight
Military Retirement Fund		X
Department of the Army	X	
Department of the Navy	X	
Department of the Air Force	X	
Medicare Eligible Retiree Health Care Fund		X
Defense Finance and Accounting Service		X
Defense Logistics Agency	X	
Defense Commissary Agency		X
Missile Defense Agency	X	
Defense Information Systems Agency	X	
Defense Advanced Research Projects Agency	X	
Tricare Management Activity	X	
Service Medical Activity	X	
Defense Contract Management Agency	X	
Navy Morale, Recreation and Welfare and Navy Exchange (Navy Exchange Service/Naval Installations Command)		X
Marine Corps, Personal and Family Readiness Division		X

The following pages highlight best practices followed by selected DoD financial audit advisory committees. Additional guidance on implementing these best practices is contained in this report.

Military Retirement Fund. The Military Retirement Fund audit committee monitored the work of the independent public accountant during the financial statement audit. Committee membership included representatives from the Government Accountability Office, DoD Office of the Actuary, and Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. All members participated in committee meetings and provided technical advice throughout the audit. The contracting officer's technical representative, the independent public accountant, and the actuarial representative presented regular briefings regarding the status of the audit to the committee.

Department of the Army. The Department of the Army created a Web site link that enabled committee members to electronically submit anonymous suggestions to improve the committee. To ensure that committee members remain focused on their audit preparedness goals, each committee briefing package contained a graphic summary of the five Financial Improvement Initiative phases.

Department of the Navy. The Department of the Navy developed an audit committee Web site to enhance communication among members and increase awareness of the Department of the Navy's audit preparedness efforts. The Web site included the audit committee charter, meeting minutes, articles of interest, and the audit committee newsletter. The newsletter provided a high-level summary of significant issues related to audit preparedness efforts and communicated the work of the committee throughout the entire organization. The Marine Corps representative developed a briefing tool to educate nonfinancial personnel on the importance of accurate financial reporting, improved business processes, and the effect of the financial statement audit on the organization.

Department of the Air Force. A senior representative from another Federal agency chaired the Department of the Air Force audit committee. Committee membership included representatives from other Federal agencies that have successfully performed a first-year financial statement audit. The committee developed a mission statement, which was separate from the committee charter. Department of the Air Force personnel briefed committee members on the business operations and financial reporting practices of the Department of the Air Force and DoD.

Medicare Eligible Retiree Health Care Fund. The Medicare Eligible Retiree Health Care Fund committee was a component of Tricare Management Activity. The committee oversaw the annual financial audit of the Medicare Eligible Retiree Health Care Fund. Committee membership included representatives from the Government Accountability Office, the DoD Office of the Actuary, and the Tricare Investment Board. The committee chairperson prepared an executive summary of the committee meeting minutes for distribution to senior leaders within the organization.

Defense Finance and Accounting Service. A senior representative from another Federal agency has chaired the Defense Finance and Accounting Service committee since the committee's inception. The committee provided independent oversight of the organization's annual financial statement audit and has helped the organization maintain its unqualified audit opinion. The committee also performed an annual review of the Management Letter prepared by the independent public accountant.

Defense Logistics Agency. The Defense Logistics Agency developed Issue Resolution teams to assist with audit preparedness. Additionally, the agency established an audit working group to discuss challenges affecting the work of the Issue Resolution team. The committee received regular briefings from the Issue Resolution team, the Agency Comptroller, and Chief Information Officer. Consultants hired by the Defense Logistics Agency have also briefed the committee on issues affecting the organization's audit preparedness efforts.

Defense Commissary Agency. The Defense Commissary Agency effectively used its committee to monitor progress on the annual financial statement audit while providing continuous feedback to the agency regarding significant audit issues. The committee has promoted an environment that encourages teamwork and cooperation among representatives from the Defense Finance and Accounting Service, organization management, the Inspector General, and the independent public accountant.

Missile Defense Agency. The Deputy Director for Agency Operations was the chairperson of the Missile Defense Agency audit committee. Committee members also included representatives from the Departments of the Army, Navy, and Air Force. The Executive Director signed a memorandum inviting all external Missile Defense Agency representatives to participate on the committee.

Defense Information Systems Agency. The Defense Information Systems Agency audit committee received regular briefings from consultants hired by the agency regarding the status of the organization's audit preparedness efforts. The committee focused on educating the entire agency on the importance of improving business operations and financial reporting processes. Committee members provided the agency Director with regular briefings regarding the status of the committee's work.

Defense Advanced Research Projects Agency. The Chief of Staff served as the chairperson of the financial audit advisory committee. The chairperson's knowledge of agency operations and programs enhanced other members' understanding of the organization and its mission. Committee members also included a technical representative, who provided briefings on technical issues associated with the organization's financial operations. The audit committee charter contains a summary of the committee's responsibilities during both audit preparedness and the financial statement audit.

Tricare Management Activity. The committee encouraged virtual participation to reduce members' travel costs and time required to attend meetings. External consultants hired by the organization and the DoD Office of the Actuary representative have contributed to the committee's audit preparedness efforts. The committee has focused on making recommendations to improve the organizations' financial reporting and business processes.

Service Medical Activity. The Service Medical Activity audit committee was a component of Tricare Medical Activity. The committee chairperson has invited members to attend conferences and seminars sponsored by Tricare Management Activity to increase their understanding of the organization, mission, and current challenges. The chairperson conducted individual meetings with committee members to increase their understanding of Tricare operations. Committee members include representatives from the DoD Office of the Actuary and from the Army, Navy, and Air Force.

Defense Contract Management Agency. The Defense Contract Management Agency Director was the chairperson of the audit committee, and members were senior personnel. The committee effectively used working groups and agency technical expertise to achieve audit preparedness goals. The committee planned to establish a Web site to communicate the work of the committee throughout the agency.

Navy Morale, Recreation, and Welfare and Navy Exchange. The Navy Morale, Recreation, and Welfare and Navy Exchange audit committee reported to the Board of Directors of the Navy Exchange Service and the Navy Installations Command. The audit committee working group briefed the full committee on the status of the annual financial statement audit. Other committee activities included providing recommendations for the annual audit plan and reviewing audit reports. The committee conducted closed executive sessions during meetings. Members have received formal training on the responsibilities of the audit committee. The committee has conducted a formal self-evaluation, a review of its charter, and an evaluation of committee member independence. The committee has provided briefings to the Board of Directors on current and future committee initiatives.

United States Marine Corps, Personal and Family Readiness Division. The audit committee advised the Director, Personal and Family Readiness Division, of the status of audits, reviews, and inspections. The committee was responsible for monitoring, providing advice, and ensuring the implementation of all report recommendations. The committee provided advice regarding the resolution and implementation of audit recommendations. The Chief Financial Officer briefed members annually on the results of the financial statement audit.

Committee Advisors

DoD Office of Inspector General. Representatives from the Defense Financial Auditing Service, DoD Office of Inspector General, performed more than one role to support the Department's financial statement audits. The Office of Inspector General acted as advisors to the financial audit advisory committees and committees for audit preparedness. In addition, the Office of Inspector General performed oversight of the independent public accountant's work on financial statement audits.

Advisors. Representatives from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Defense Finance and Accounting Service served as advisors to DoD financial audit advisory committees. In their advisory roles, they have contributed to committees' efforts to improve business processes and overall financial reporting throughout DoD. In some instances, representatives from internal audit organizations also acted as advisors to DoD financial audit advisory committees.

Financial Audit Advisory Committee Best Practices

A. Financial Audit Advisory Committee Benefits

Financial audit advisory committees benefit an organization either by helping with audit preparedness before financial statements are ready for audit or by providing increased confidence in the organization's financial statements that are ready for audit. Parties external to the organization bring independence and objectivity to the committee because they are not closely aligned with the organization.

Benefits Affecting Agency Management. A financial audit advisory committee provides management with numerous benefits, including increased oversight of the organization's financial statement audit. Committees for audit preparedness also assist management by providing independent advice and recommendations to improve the organization's financial reporting processes and business operations. The committees' review of the organization's Performance and Accountability Report enhances the credibility and quality of the document and provides management with suggestions for improvements. Additional benefits to management include educating agency personnel on the financial statement audit; acting as liaison among management, the financial statement auditors, and consultants; and monitoring the organization's system of internal control.

Benefits of Independent and Objective Committees. Independent and objective financial audit advisory and audit preparedness committees provide significant benefits to an organization. The most significant benefits include enhanced communication on financial management problems among senior managers, a vehicle for resolving differences (especially differences resulting from internal control and compliance problems), and increased confidence in the credibility of the organization's financial statements. Most importantly, an audit and financial advisory committee provides accountability for financial reporting throughout the organization and to the public.

The committee ensures that the organization achieves the goals and objectives of the financial audit, provides expertise on accounting and financial reporting issues, provides transparency for the organization, and ensures early identification and resolution of audit-related problems. The presence of the committee can prevent organizations with unqualified audit opinions from becoming complacent and encourages continuous improvements in the organization's business and financial reporting processes. The committee also lends more credibility to the independent public accountant's findings because it acts as an independent third party to review, discuss, and evaluate the results of the independent public accountant's work.

Benefits for Audit Preparedness. Financial audit advisory committees assist with audit preparedness in a number of ways that benefit the organization. Committees can help ensure that the organization maintains its focus on audit readiness and can suggest ways to improve the organization's business and financial reporting processes. The committees can emphasize the importance of fiscal responsibility throughout the organization. Committee meetings provide a forum for employees to interact with one another and exchange information regarding significant issues occurring in their functional areas.

B. Clarifying the Responsibilities of a Financial Audit Advisory Committee

The responsibilities of financial audit advisory committees vary depending on the progress that the organization has made on audit preparedness. DoD committees for audit preparedness help the organization prepare for audit while simultaneously making recommendations to improve internal controls and business processes. Committees that are acting as advisors during the annual financial statement audit may have responsibilities such as providing oversight and advice, acting as a liaison between management and the independent public accountants, monitoring management's internal control program, and educating DoD personnel on the importance of the audit and the work of the committee.

Providing Oversight. The primary responsibility of the committee is to provide external oversight for the organization. To fulfill its oversight responsibility for the organization's financial reporting responsibilities, the audit committee should review the entity's annual and interim financial reports. The committee should provide recommendations to the organization to ensure that the financial statements are understandable, transparent, and reliable. Additionally, the committee should conduct a thorough review of the organization's annual Performance and Accountability Report and make recommendations for improvements.

Acting as a Liaison. The committee should act as a liaison among management, the financial statement auditors, and consultants. The committee should review management's comments to the independent public accountant's findings and recommendations. The audit committee should also request deadlines for implementing recommendations. Management should be responsible for tracking the status of all recommendations and reporting this information to the committee.

Monitoring Internal Controls. The financial audit advisory committee can make recommendations to ensure that the organization has implemented appropriate internal controls to address organizational risks, and that those internal controls are operating effectively. The committee should work with management to achieve an organization-wide commitment to strong and effective internal controls. Periodically,

management can invite the committee to provide recommendations on other issues affecting the organization's financial management and business operations.

Assisting With Audit Preparedness. When organizations focus on audit preparedness, the primary responsibility of committees is to assist in developing strategies for improving agency financial reporting and business operations. The committee should use the expertise of all members to achieve the goal of audit preparedness. Additionally, as needed, functional managers should attend committee meetings to assist with formulating recommendations for improved agency operations.

Educating Personnel. DoD committees focused on audit preparedness can support management's efforts by educating personnel regarding the importance of the financial statement audit and improved business processes. Developing easy-to-understand presentations that do not emphasize accounting and auditing terms is an effective method to educate nonfinancial personnel. Areas to emphasize in the presentation include the need for compliance with the President's Management Agenda mandate for improved government-wide financial reporting, the effect of inefficient financial reporting on the organization's achievement of its mission, and opportunities to save money.

As a way to educate the organization about the work of the committee, the financial audit advisory committee should consider developing a newsletter. The newsletter should provide a summary of the committee's accomplishments and information on the organization's audit preparedness efforts. The newsletter could also feature relevant articles from periodicals or newspapers. An example is located on the Department of the Navy's Web site (www.finance.hq.navy.mil/fmc/Prod_Audit.asp). Posting the newsletter on the organization's Web page makes the information available to everyone.

C. Working With or on a Financial Audit Advisory Committee

Agency management should ensure that the organization has an understanding of the roles of the committee and its members. It is important that all committee members understand that they are acting as advisors to the organization. Members should use their expertise and experience to develop suggestions and strategies for improving financial reporting and business processes. Committees should work with management and share suggestions to improve financial management throughout DoD.

Role of Management

Management should support the work of the committee. Management can contribute to the success of the committee by providing ongoing communication regarding the status of the audit and should brief members on changes in financial reporting and business operations that might affect the committee's work. Management should also meet with the committee and discuss the results of their work. In addition, management should provide the committee with suggestions to improve its performance.

Role of the Committee

The central function of the committee is to increase the accountability of the organization. To achieve this goal, the committee should work to ensure trust and faith between it and the organization, rather than an "us against them" relationship. The committee should collectively work to develop recommendations to improve the organization's financial reporting and business processes.

Role of the Member

To contribute to the mission and goals of the committee, members should understand the essential business of the agency, interpret Federal laws, understand Federal financial accounting and reporting requirements, and know Federal requirements for systems certifications. Most importantly, members should ask the agency's top managers how they intend to ensure agency compliance with relevant laws and regulations. Members should use their expertise and experience to assist with mediation and problem solving, as needed.

Serving in an Advisory Role. Committee members must always remember that they serve in an advisory role, not a decision making role. The charter should define the role of the member to reinforce the members' understanding of their role. Because the members are not making formal decisions, the effectiveness of the work of the committee depends on the amount of energy that members devote to it.

Communicating the Committee's Work. Each member should try to communicate the work of the committee to show what they are accomplishing. To assist with this process, financial audit advisory committees provide members and advisors with briefing materials, newsletters, meeting minutes, and meeting agendas. When appropriate, members and advisors should make this information available to employees in the agency. Communications from members and advisors about the work of the committee emphasize the importance of the audit.

D. Establishing a Financial Audit Advisory Committee

Establishing a financial audit advisory committee consists of many activities: developing a committee charter and mission statement, selecting a chairperson, identifying and evaluating the committee composition, and identifying and recruiting committee members with the necessary skills to achieve the work of the committee.

Tips To Consider When Establishing a Committee

- Define your goal and adhere to your charter
- Maintain open communication with all stakeholders
- Maintain open communication with the agency
- Select a good leader
- Select good members
- Train new members
- Meet as frequently as necessary

Developing a Charter

A charter delineates the financial advisory committee's purpose, composition, roles, and responsibilities. Management is usually responsible for providing a draft charter for committee review. When creating the committee charter, it is important to specify the committee's authority because members should act as advisors to the organization. The following list highlights elements that committees should consider including in their charters.

Elements of a Charter

- Committee's Objectives
- Committee's Authority
- Committee Composition and Member Tenure
- Committee Roles and Responsibilities
- Member Responsibilities and Expectations
- Reporting Requirements
- Administrative Agreements (frequency of meetings; requirements for attendance; method for assessing committee performance, and frequency of assessments; and method for reviewing the committee charter, and frequency of charter reviews)

Refer to Appendix C for a sample charter for a Federal Advisory Committee Act-Compliant Audit Committee,⁴ and to Appendix D for a sample Financial Audit Advisory Committee Charter.

Financial audit advisory committee members should conduct an annual review of their charter to reassess the adequacy of the document and determine whether the committee is fulfilling its responsibilities. Revisions to the charter may be necessary because of changes to laws, regulations, accounting standards, or internal policies. The committee can determine the approach used to complete the review of the charter. For example, the committee chair can complete the review and then brief the full committee on recommendations to revise the charter. Alternatively, the committee can complete the review together and propose changes, as appropriate.

Whoever conducts the review, there are several ways to do it. One is a line-by-line analysis of the charter's content. Although time-consuming, this approach ensures that a complete and thorough analysis is conducted. In addition, it may also be helpful to compare the results of the analysis to committee meeting minutes and agendas to determine the fulfillment of committee responsibilities.

The committee can also use a "Committee Charter Evaluation Checklist" to evaluate the charter. A sample checklist is shown in Appendix E. This checklist summarizes the responsibilities of the committee as detailed in the charter. Members should

⁴ An audit committee that complies with the Federal Advisory Committee Act includes members outside of the Federal Government. For background on the Federal Advisory Committee Act, see page 19 of this document.

review the responsibilities outlined in the checklist and determine compliance with overall charter requirements. The committee can use the checklist at any time during the year to monitor the committee's progress on meeting the mission, goals, and responsibilities documented in their charter. Additionally, this review approach enables the committee to identify specific areas to focus on to ensure that they are meeting their responsibilities. It may also be helpful to compare the results of this analysis with committee meeting minutes and agendas.

Developing a Mission Statement

Financial audit advisory committees are encouraged to develop a mission statement. The purpose of the mission statement is to guide the committee and reinforce the expectations of committee members. The mission statement should summarize the general roles and responsibilities of the committee. The committee mission statement should remain consistent over time, despite revisions to the committee charter.

Sample Mission Statement

The committee oversees the engagement, independence, and services of the independent auditor. It also serves as an independent and objective party to (1) monitor the financial reporting process and internal control system; (2) review and appraise the efforts of the independent auditor and oversee the internal audit function; (3) evaluate quarterly financial performance; (4) oversee management's establishment and enforcement of financial policies and business practices, as well as compliance with laws and regulations; and (5) facilitates communication among the top (**insert agency name**) leadership and the independent auditor, financial and senior management, legal counsel, and the internal audit department.

Selecting a Chairperson

The head of the agency should appoint the financial audit advisory committee chairperson. The chairperson does not necessarily have to be an accountant, but does need to have a sound financial background. Without this type of experience, the chairperson will require a great deal of training, and the time and effort required to complete training could potentially reduce the chairperson's effectiveness. This recruiting approach also assists with bringing a different perspective and subject matter expertise to the committee. It is also helpful if the chairperson has experience in private industry and possesses exceptional critical thinking skills.

One of the keys to the success of a financial audit advisory committee is the effectiveness of the chairperson. The chairperson should be strong, independent, and able to lead the other members of the committee. The chairperson should also foster

an environment that encourages open communication among members and with management while keeping the committee focused on results. To effectively lead the committee, the chairperson should be inquisitive and stay up-to-date on significant changes in accounting, auditing, and financial reporting requirements to ensure that the committee's knowledge of its roles, responsibilities, and relevant best practices is current.

An Effective Chairperson Should:

- Lead from the front—decide what the committee is going to achieve, plan a schedule, and push it through vigorously, keeping up the momentum
- Initiate individual meetings with the Inspector General, Chief Financial Officer, and any other officials affected by the work of the committee
- Establish the schedule for meetings to ensure that the members have enough time to propose recommendations that are effective
- Use the agenda both to control meetings (ensure the right topics are covered in the right order) and to ensure that members are prepared for meetings
- Know the strengths and weaknesses of the other committee members well enough to encourage and guide them effectively
- Recruit new members if current members do not have the right mix of knowledge and experience to give the support needed
- Ensure that the committee's decisions and concerns are reported to the agency regularly both orally and in writing
- Know or learn enough about the audit and how it is organized to be able to ask the independent public accountant probing questions
- Ask the independent public accountant for updates on all relevant technical developments that will affect the financial statements or the audit
- Be alert to indications of the independent public accountant's unease when responding to committee questions and be responsive to requests to consult with the auditors alone outside of the meetings
- Ask management for regular updates on the status of audit findings
- Ensure that the committee has the flexibility to respond quickly to unexpected findings, outcomes, and issues
- Ensure that the committee does not become entrenched in a routine
- Exercise tact, diplomacy, and be inquisitive

Constituting a Committee

The agency head should appoint all committee members. Organizations that decide to have a financial audit advisory committee are encouraged to have term lengths that provide a balance between maintaining continuity for the committee and enabling the committee to continuously provide new ideas for the organization. Therefore, the terms of the first appointments should be staggered to avoid complete turnover at any time. Also, new agency heads should not automatically replace existing committee members with members with whom they are more comfortable.

A financial audit advisory committee should include at least three members. The maximum size may vary, but the committee should be small enough to ensure that each member is an active participant. In general, the committee should consist of three to five members, depending on the range and complexity of its work.

Evaluating the Committee Composition. Committee members should review the composition of the committee periodically to ensure that the committee has the right mix of individuals. The right mix consists of subject matter experts that are necessary to execute the work of the committee. It is not uncommon for committees to expand or reduce their membership in response to the changing environment in which they operate.

Implementing Audit Preparedness Working Groups. The implementation of audit preparedness working groups is also encouraged within the DoD to divide the many tasks of the committee. The working group leader should brief the committee regarding the status of the group's work, as needed. However, because the committee is composed of senior-level members, the briefings should not be too detailed, time-consuming, or technical. Depending on the stage of financial statement preparedness, the composition of the group may need to change. The presence of audit preparedness working groups encourages the ongoing participation, interest, and support of agency senior managers and external members.

Recruiting Committee Members

Potential recruits should not previously or currently be closely aligned with the organization or its operations. However, the risk associated with recruiting members external to the organization is that they may not understand the organization, and this lack of understanding may affect their performance as committee members. Therefore, it is essential to evaluate potential members during the recruitment process. New members who are inexperienced with serving on a financial audit advisory committee may require a year to adjust to their roles and responsibilities.

Beyond the skills, experience, and personal attributes needed to conduct the work of the committee, potential recruits should have personal credibility and standing in the business and financial communities. The recruiting official should evaluate the

potential member's experience on similar advisory committees at other Federal agencies or on similar committees in the private sector. Generally, committee members should have experience reviewing and providing advice on management issues and acting in a leadership role in their organization.

Continuity of Membership. For continuity, it is prudent to recruit members who are able to serve on the committee for the duration of their appointment. Continuity among members enables the committee to retain institutional knowledge of the financial statement audit and past audit issues. Continuity also enhances the committee's ability to assist management with identifying long-term trends and facilitating improvements in organizational operations.

Independent Members. The committee should be composed of independent members to provide truly effective oversight of the organization's financial reporting process. "Independent" for the purpose of committee membership can be defined as independent from management and free from any relationship that would interfere with the exercise of independent judgment as a committee member.

External Members. External members improve the independence and transparency of the committee. External members also bring new perspectives to the organization. For example, they are able to provide insight regarding methods used in their organizations to resolve similar financial reporting obstacles. The committee's ability to solve problems and make recommendations for improved financial reporting improves when members do not share the same perspective as the agency they are advising. Because external members are independent from the organization, they will not be as inclined to take a defensive position when discussing sensitive issues. External members generally have a broader vision and may pose questions that an internal member would not ask. In general, external members help the organization maintain its focus on business processes and financial reporting issues. The Federal Advisory Committee Act includes additional guidelines for recruiting audit committee members who are external to the Federal Government.

The Federal Advisory Committee Act applies when the agency head establishes a committee to obtain advice or recommendations for himself or herself or for other Federal officers in the executive branch, and when the committee is not composed wholly of full-time or permanent part-time officers or employees of the Federal Government. The Federal Advisory Committee Act requires that meetings:

- be advertised 15 days in advance in the Federal Register,
- be open to the public unless limited statutory basis for closure applies,
- be attended by a Designated Federal Officer, and
- have minutes available for public inspection.⁵

⁵ Does not apply to closed portions of a meeting.

The Government Accountability Office and the Small Business Administration have financial audit advisory committees that are compliant with the Federal Advisory Committee Act.

Recruitment for Audit Preparedness. When an organization is preparing for audit, the committee's composition and the subject matter expertise it requires are often different from those of an organization undergoing an annual financial statement audit. However, DoD organizations are encouraged to recruit members from external organizations to assist with DoD audit preparedness efforts. It is important that the committee not consist of too many internal members or members representing a single functional area because this can cause the committee to align with a specific point of view.

Before initiating the recruitment process, the recruiting official should determine the subject matter expertise necessary to conduct the work of the committee. The agency's progress with audit readiness usually determines the necessary subject matter experts. Suggested areas of expertise include, but are not limited to, information technology, statistics or actuarial science, human resources, inventory, and property. As a general practice, to assist DoD efforts to prepare for audit, the committee should consist of some internal members who are at the Senior Executive Service level within their organizations and/or possess decision making authority within the organization. If the committee is not able to recruit Senior Executive Service members, it should invite them periodically to attend committee meetings. This approach is especially important when a management problem requires the support and endorsement of senior managers. Financial audit advisory committees can also consider recruiting an advisory member from the Government Accountability Office to assist with audit readiness.

Potential committee members should include those with a functional understanding of the organization's internal financial and business operation challenges. However, when the committee resolves the problem requiring assistance from functional members, the committee should reevaluate the necessity of their membership. Organizations that frequently rely on financial data from other DoD organizations should consider recruiting a member from a component agency to participate in the work of the committee. This strategy also encourages the exchange of ideas and participation in other financial advisory committee meetings within the department. Other factors to consider when recruiting members to assist with audit preparedness include:

- expertise and experience leading an organization through a first-year financial statement audit,
- experience helping an organization obtain and maintain an unqualified audit opinion,

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- understanding of the DoD financial improvement process, and
 - understanding of DoD culture, mission, and diversity of operations.

Evaluating Committee Member Qualities and Expertise

Interviews with the candidates help the recruiting official select new members. If the recruiting official does not want to conduct a formal interview, there are various options to assess the acceptability of a potential candidate—for example, by phone.

All members should be experts in a specific subject area identified as essential to conducting the work of the committee. Collectively, the committee members should have an understanding of the following:

- Chief Financial Officer's Act requirements,
- Federal information systems requirements,
- Federal accounting and financial reporting requirements,
- Legal, actuarial, and strategic planning.

Although there is not an explicit requirement for a Government financial audit advisory committee to include members with some level of financial expertise, it is generally a good practice. It should be the goal of the Government financial audit advisory committee that all of its members have experience in financial matters. Management of the organization should be prepared to provide training to members who do not have knowledge of financial matters. On the following page are typical components of financial expertise.

Components of Financial Expertise

- An understanding of generally accepted accounting principles including accounting and financial reporting guidance issued by the Federal Accounting Standards Advisory Board
- An understanding of financial statements and Government and private sector auditing standards, as well as knowledge of the Single Audit Act of 1984, as amended, and Office of Management and Budget Circular Number A-133, "Audits of States, Local Governments, and Non-Profit Organizations," Office of Management and Budget Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 4, 2007, and Office of Management and Budget Circular A-136, "Financial Reporting Requirements – Revised," June 29, 2007
- The ability to assess the general application of the above-mentioned principles and standards in connection with the accounting for estimates, accruals, and reserves
- Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that external auditors can reasonably be expected to raise in relation to the organization's financial operations
- Experience supervising one or more people engaged in such activities
- An understanding of internal controls and procedures for financial reporting
- An understanding of audit committee functions
- A general understanding of the Government environment and specific knowledge of the Government sector in which the organization operates

In addition to evaluating potential members' technical skills, experience, independence, and personal credibility, evaluating the following personal qualities during the interview and on the basis of references' comments is important.

Qualities of Committee Members

- The ability to act independently and be proactive in advising the organization of issues that require further management attention
- The ability to ask relevant questions, evaluate the answers, and continue to probe for information until completely satisfied with the answers provided
- Independence of thought
- An appreciation of the entity's culture and ethical values and a determination to uphold those values
- The ability to encourage openness and transparency
- The ability to work with management to achieve improvement in the organization
- The ability to adequately explain technical matters to other members of the committee where members have been chosen for particular technical skills

Whatever approach is used to recruit committee members, it is essential to communicate the following information to the candidate:

- Purpose and responsibilities of the committee,
- Role of a committee member,
- Committee's reporting relationship within the organization,
- Candid summary of the status of the organization's financial management,
- Financial reporting challenges, and
- Time required to serve on the committee.

When the recruitment process is completed, the organization should send the person they select a letter of designation as a formal committee member and a copy of the committee charter. (See Appendix F for a sample letter of designation.) This final action in the recruitment process assists with formalizing the appointment and

commitment of the new committee member. As a courtesy, the appointing agency should consider following up with a telephone call to determine whether the new member has questions regarding the appointment or members' responsibilities.

E. Operating a Financial Audit Advisory Committee

Orientating and Training Members

During new member orientation, it is important to educate all new members regarding the function and purpose of the committee. The new members should receive information on the following topics.

Orientation Topics

- Organization mission, goals, structure, and operations
- Assertion* processes and procedures
- Size of the organization
- Length and complexity of the entity's financial reports
- The degree of the organization's reliance on data from component organizations
- Internal controls supporting financial reporting
- The degree of the organization's dependence on financial reporting controls external to the entity
- Structural weaknesses in the organization
- Status of the organization's audit preparedness efforts
- Results of previous audits

*Assertions are representations by management in financial statements. They can be either explicit or implicit and can be classified into the following categories: existence or occurrence, completeness, rights and obligations, valuation or allocation, and presentation and disclosure. The American Institute of Certified Public Accountants, Statement on Auditing Standards 106, "Audit Evidence," February 2006, identifies 13 financial statement assertions, which are grouped into 5 assertions in the President's Council on Integrity and Efficiency/Government Accountability Office Financial Audit Manual, (FAM 235.08).

During orientation, it is helpful for members to receive briefings from functional representatives within the organization. Suggested representatives may include attorneys, information systems technical experts, and property accountability and accounting representatives. The committee chairperson may also conduct individual briefings with new committee members.

Agency management should provide members who do not have a financial background with some basic financial information. Suggested information may include processes and procedures related to the financial audit and financial reporting. This type of basic information is essential to ensure that members understand the topics discussed during meetings. The recruiting organization should invite new members to attend educational events sponsored by the organization whenever possible. The events should highlight the mission, function, and activities of the organization. It is also helpful to invite committee members to attend seminars or conferences focused on specific issues affecting the work of the organization. The education of committee members should be ongoing. Members should receive regular briefings on emerging issues that may affect the organization. Emerging issues may include Office of Management and Budget updates, changes in accounting and auditing requirements, and new legislation.

Essential Resources for Committees

The organization should ensure that the committee has access to the people and information it needs to discharge its responsibilities. Essential resources for financial audit advisory committees are the expertise and experience of members and information. In addition, it is essential for the committee to have access to the independent public accountant, management, and technical experts, as needed. The organization also should provide adequate assistance for training committee members. The organization can consider using both internal and external training providers depending on the needs of committee members. Administrative support is also necessary to assist the committee in fulfilling its oversight responsibilities. Most importantly, to ensure that the advisory committee is independent, any party external to the committee should not filter information or requests for information. For example, the committee should make requests for financial information directly to the Chief Financial Officer.

The following information is useful for the committee.

- presentations from the independent public accountant or consultants regarding the status of their work are essential to keep the committee abreast of the status of the financial statement audit and of business process improvements;

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- presentations by other organizations regarding their experience with preparing the DoD assertion package;
 - briefings by organizations that have received unqualified financial statement audit opinions (briefings should highlight both the financial and operational aspects of the financial audit process);
 - briefings by organizations that highlight success stories regarding the resolution of audit problems; and
 - regular briefings from the Chief Financial Officer, Inspector General, Chief Information Officer, and agency managers on issues affecting the organization.

To assist with the dissemination of information, the organization should consider providing members' access to its Web site.

General Activities

The primary purpose of the financial audit advisory committee is to provide a third-party perspective regarding financial reporting problems arising during the financial statement audit. It is essential that the committee and independent public accountant have open communication throughout all audit phases. The committee should receive regular updates on the status of findings, material weaknesses, significant deficiencies, control deficiencies, or other issues that may affect the overall audit opinion. The committee should review and discuss the following topics.

Committee Focus Areas

- Organization's annual plan
- Summaries of the results of audit testing
- Future audit steps and audit deliverables
- Quarterly financial statements
- Annual financial statements
- Audit and financial statement timelines and milestones
- Government-wide financial indicators
- Internal financial indicators
- Information technology weaknesses
- Changes to regulations and updates on Federal financial reporting guidance
- Annual briefings on financial statements and all audit findings by the independent public accountant

Serving as an Intermediary. The financial audit advisory committee often mediates among the agency, the Inspector General, the Chief Financial Officer, and the independent public accountant. While acting as an advisor, the committee should suggest a course of action that is acceptable to all parties.

Staying Abreast of Agency Operations. The committee should receive regular briefings regarding the status of audit work performed by the organization's internal auditor or by the Inspector General. The committee should also receive periodic updates from agency managers on the overall management of the organization. When needed, external parties should brief the committee on topics that may affect the execution of their oversight responsibilities. It is also helpful to provide the committee with periodic briefings regarding significant issues addressed in the Inspector General's Semiannual Report to Congress; the status of audits and investigations, as appropriate; and the methodology used to prepare the organization's Performance and Accountability Report. The Performance and Accountability Report contains detailed information on the organizations audited financial statements and

the performance results achieved. The organization submits the report to the President, Congress, and members of the public to indicate how well the organization performed in managing its programs and finances.

Assisting With Other Activities. The financial audit advisory committee may assist agency senior management with many other activities.

Other Committee Activities

- Assessing the audit plan to determine whether it is aligned with the agency mission
- Monitoring implementation of audit recommendations and corrective actions
- Determining the adequacy of budgets and resources requested by internal auditors and the independent public accountant
- Recommending ways to resolve agency financial reporting challenges and improve overall business operations

Meetings With Agency Officials

Periodically, the committee chairperson should have meetings with the agency head or other senior officials to discuss the work of the committee. The meetings should highlight the committee's work and accomplishments. Suggested topics may include a summary of committee accomplishments since the last briefing; results of the annual charter evaluation, including areas in which the committee met the charter requirements and areas identified for improvement; revisions to the charter; and results of the committee's self-evaluation.

Reporting

The financial audit advisory committee should consider participating in the presentation of the Performance and Accountability Report by the agency Chief Financial Officer and the Inspector General to the head of the agency. The committee should consider including an “Audit and Financial Management Advisory Committee Report” in the agency Performance and Accountability Report. In general, this report should describe the committee responsibilities, significant accomplishments, and the results of the committee’s review of the Performance and Accountability Report. See the Web sites of the Government Accountability Office (www.gao.gov) and the U.S. Small Business Administration (www.sba.gov) for examples.

The committee’s review of the Performance and Accountability Report enhances the credibility of the document. Committee members should request draft copies of the Performance and Accountability Report from the agency. All members should be required to read the document and make suggestions for improvements. Committee comments should also be included as an agenda discussion item. As part of the review process, the committee should evaluate any changes in accounting and reporting requirements and evaluate their potential effects on the contents of the Performance and Accountability Report.

In addition to reviewing the agency’s Performance and Accountability Report, committees engage in numerous types of reporting activities. Some committees are responsible for endorsing the agency’s “Management Response to the Independent Auditor’s Report,” which is included in the agency’s Performance and Accountability Report. Other committees provide annual feedback to the organization regarding the presentation of information in the financial statements and also review and comment on the organization’s proposed audit plan. Committees should summarize their annual recommendations in a letter for review by the head of the agency.

Meetings, Agendas, and Minutes

When preparing for and conducting committee meetings, it is important for members to consider the following strategies.

Meeting Strategies

- Committee meetings should accomplish something
- Meetings should be short—1 or 2 hours only—and action oriented to encourage the participation of all members and advisors
- Meetings should start and end on time
- Meeting attendance should be limited to participants who are essential to fulfill the meeting objectives. Too many observers can hinder the free expression of committee members
- “Robert’s Rules of Order” should guide meeting procedures
- Meetings should occur on the same dates and times
- A member who is unable to attend a meeting must send a substitute. The committee can consider including this requirement and information regarding the authority and responsibilities of meeting substitutes in its charter
- All members should have the opportunity to present their views at each meeting

Frequency of Meetings. Each committee should determine the number and frequency of meetings necessary to fulfill its oversight responsibilities. The committee should also engage in informal communication with the organization throughout the year. When an audit advisory committee is working toward audit preparedness, meetings should be more frequent to ensure that the committee does not lose its momentum.

Checklist. Committees should consider developing a checklist that identifies all committee tasks necessary to fulfill oversight responsibilities. (See Appendix G for a sample checklist.) The checklist enables the committee to review audit requirements either annually or quarterly to ensure that a specific topic does not dominate meetings. This committee can also use the checklist to assist with preparing meeting

agendas throughout the year. Sample checklist items may include executive session meetings, meeting with the independent public accountant, and review of draft financial statements.

Executive Sessions. Committees are encouraged to conduct Executive Sessions with the Inspector General, Chief Financial Officer, senior management, and the independent public accountant at least annually. However, the committee may request an Executive Session at any time. During an Executive Session, those who are not official committee members should be excluded from the meeting. During the closed meeting, the committee does not record meeting minutes. Participants are usually more forthcoming with information on the status of their work in this environment.

Meeting Preparation and Coordination. The committee should send agendas and briefing materials to participants at least 1 week before the meeting. Because the overall presentation of the briefing material can influence members' interest in the meeting topics, materials should include colorful charts and handouts that are easy to read and understand. The committee should provide teleconferencing to encourage the participation of all members. Virtual participation can increase meeting attendance and reduce the travel cost and time.

Agendas. The chairperson or committee members should develop the meeting agendas. This strategy strengthens the committee's independence from the organization. It is important that the chairperson and/or committee consider whether the information is something that members need to know when considering a meeting topic. In general, the financial audit schedule and meeting discussions generate most agenda topics.

The chairperson can request agenda topics at the end of each meeting from the group or request input later from individual committee members. To ensure that the meetings stay focused and end on time, the agenda should indicate the amount of time that the committee will devote to each subject area. Members should receive the final agenda at least 1 week before the meeting. Early distribution of the meeting topics enables nonvoting members to determine whether their attendance is required.

Minutes. Minutes should be prepared for each meeting unless it is an executive session. The meeting minutes should provide a record of committee accomplishments and detail what the committee could not accomplish and why. This approach ensures an accurate record of all committee activities. The chairperson should not be responsible for documenting the meeting minutes. It is too difficult for the chairperson to facilitate the meetings and record meeting minutes. A person familiar with the subject matter and overall work of the committee should be responsible for preparing the minutes. Members should receive the draft minutes and have an opportunity to provide comments before the minutes are final. The committee can also request comments from the independent public accountant. The committee should incorporate all relevant comments into the draft minutes before

final distribution to members. Committees should consider creating an executive summary highlighting the most significant issues discussed during the committee meeting. The summary is a good tool to communicate the work of the committee to senior leaders who may not have time to read detailed meeting minutes.

F. Evaluating Performance

Annual committee performance evaluations provide an opportunity for the committee and chairperson to identify opportunities for improving the operation of the committee. Committee members should continuously strive to improve performance and identify new ways to add value to the organization.

Formal Evaluations. Financial audit advisory committees should consider conducting comprehensive self-evaluations annually. Appendix H contains a sample evaluation for committees involved with audit preparedness. A comprehensive evaluation for committees performing official oversight activities is located on the Web page of the American Institute of Certified Public Accountants (www.aicpa.org). The evaluation process ensures that the committee continuously assesses and improves its overall performance. The evaluation focuses on the work of both the committee and individual members. Members should have the option of submitting their evaluations anonymously to an individual external to the committee. To ensure confidentiality, the committee chairperson and members should not have access to the individual responses. A summary of member responses should be prepared and placed on the agenda for discussion.

Informal Evaluations. The committee can also informally evaluate its performance throughout the year. For example, the committee could conduct a roundtable discussion and solicit input from members on ways to improve the committee. Management could facilitate informal evaluations by developing a Web site where members could submit anonymous suggestions to improve the committee. During committee meetings, the committee should review the feedback that is provided by members, advisors, and observers. Other methods to evaluate the performance of the committee include monitoring the completion of committee tasks, the ability of the committee to attain milestones, improvements in the organization's business and financial reporting processes, and improvement in the organization's annual financial statement audit opinion.

Conclusion

Financial audit advisory committees add value to an organization by providing independent oversight and advice to assist the organization in developing strategies for enhanced financial reporting and business process improvements. The presence of the committee provides transparency and accountability for the organization and the public. Committees composed of the right mix of enthusiastic members and an effective chairperson provide a resource for both audit preparedness and oversight of the annual financial statement audit. Additional committee activities may include reviewing the organization's audit plan, reviewing the status of corrective actions taken in response to audit recommendations, and reviewing the organization's Performance and Accountability Report. These activities provide benefits to the organization that may not be achieved without the committee.

Appendix A. Scope and Methodology

This review was self-initiated. We reviewed audit and financial advisory committees that were established for financial statement audits only. We focused on committee activities occurring within the last two years, when applicable. Areas reviewed included the committee charter, committee composition, member qualifications, committee activities, and committee resource requirements. We conducted more than seventy interviews with committee members and advisors to identify best practices for the committees. Interview questions were developed through an analysis of the “Gallop Organization, Advisory Committee Engagement Survey,” March 2005. Additionally, we conducted background research to identify established best practices for committees operating in both the public and private sectors. The following DoD organizations participated in the review:

- Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, Financial Improvement and Audit Readiness Directorate*⁶
- Department of the Army
- Department of the Navy
- Department of the Air Force
- Defense Financial Auditing Service, Office of the Inspector General DoD*
- Defense Advanced Research Projects Agency
- Defense Commissary Agency
- Defense Contract Management Agency*
- Defense Finance and Accounting Service
- Defense Information Systems Agency
- Defense Logistics Agency
- Missile Defense Agency
- Tricare Management Activity
- Navy Exchange Service*
- Naval Installations Command*
- Headquarters, United States Marine Corps, Personal and Family Readiness Division*

Representatives from the following organizations were interviewed and provided information and related documents as part of this project:

- Office of Management and Budget
- Government Accountability Office
- Department of Agriculture
- Department of Interior
- International Trade Commission
- National Science Foundation
- Small Business Administration

⁶ An asterisk indicates that a DoD audit committee is not required.

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- United States Holocaust Memorial Museum
 - United States Postal Service
 - Government Accounting Standards Board
 - KPMG

Appendix B. DoD Comptroller-Required Audit Committees

Entities That Submit Financial Statements to the Office of Management and Budget:

- Military Retirement Fund
- Department of the Army General Fund
- Department of the Army Working Capital Fund
- Department of the Navy General Fund
- Department of the Navy Working Capital Fund
- Department of the Air Force General Fund
- Department of the Air Force Working Capital Fund
- U.S. Army Corps of Engineers
- Medicare Eligible Retiree Health Care Fund

Entities That Submit Financial Statements to DoD:

- Defense Finance and Accounting Service
- Defense Contract Audit Agency
- Defense Logistics Agency
- Defense Threat Reduction Agency
- Defense Security Service
- Defense Commissary Agency
- Missile Defense Agency
- Defense Information Systems Agency
- Defense Advanced Research Projects Agency

Other Entities That Submit Financial Statements to DoD:

- National Geospatial Intelligence Agency
- Defense Intelligence Agency
- National Security Agency

Appendix C. Sample Charter for a Federal Advisory Committee Act-Compliant Audit Committee

CHARTER (AGENCY NAME) AUDIT AND FINANCIAL MANAGEMENT ADVISORY COMMITTEE

This charter was prepared and filed in accordance with the Federal Advisory Committee Act, as amended, (FACA) (PL 92-463-5 U.S.C. App. 2), General Services Administration (GSA) regulations governing Federal Advisory Committee Management (41 CFR paragraph 102-3) and (Agency Name Standard Operating Procedure)

1. Official Title. The official title of the advisory committee is the (Agency Name) Audit and Financial Management Advisory Committee (“the Committee.”)
2. Objective and Scope. The committee is established by the Head of (Agency Name) to provide recommendations and advice regarding the Agency’s financial management, including the financial reporting process, systems of internal controls, audit process and process for monitoring compliance with relevant laws and regulations.
3. Committee Membership. The committee shall be comprised of at least three members, including one Chairperson as determined by the Head of (Agency Name), who are free from any interest that would interfere with the exercise of independent judgment as a member of the Committee. Committee membership must be fairly balanced and diverse in terms of occupational background and type of financial expertise.
 - 3.1. Qualifications. Committee members must have sufficient financial knowledge and experience to enable them to discharge the Committee’s duties. Each member must be able to: i) understand federal financial statements; and ii) recognize factors affecting the quality of (Agency Name) financial reporting as a basis to make meaningful recommendations about the Agency’s audited financial statements and related financial management policy. (Agency Name) will view favorably candidates possessing a broad accounting background, extensive financial management expertise, and/or significant experience with federal financial management.
 - 3.2. Term. Committee members, including the Chairperson, shall serve for a X year term unless (Agency Name) terminates membership sooner. Members will have staggered initial terms of appointments. Members cannot serve for more than X number of consecutive terms.

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- 3.3. (Agency Name) Employees Prohibited. Committee members shall be independent from the Agency and in this respect shall not be current employees of (Agency Name). Federal employees who are not current employees of (Agency Name) may be eligible for membership so long as the employee's ethics official provides a statement that no conflict of interest or appearance of a conflict of interest exists.
4. Time Period. The Committee may require two years to carry out its purpose. (Agency Name) may terminate the committee before the end of the 2 year period in accordance with 41 CFR paragraphs 102-3.55. The committee will automatically terminate 2 years after establishment unless (Agency Name) renews the Committee before the end of the 2 year period, in accordance with 41 CFR paragraphs 102-3.60.
5. Designated Federal Officer. The Chief Financial Officer or designee, will serve as the Designated Federal Officer for the committee. The Designated Federal Officer's functions and responsibilities are governed by 41 CFR paragraphs 102-3.120.
6. Support Services. The Designated Federal Officer shall be the main contact for the committee, with the assistance and input from (Agency Name) Office of the Chief Financial Officer.
7. Immediate Reporting. The committee shall promptly consult with the Designated Federal Officer regarding any significant issues or developments that the Committee determines warrant the Agency's immediate attention. The committee and the Designated Federal Officer shall immediately report such matters to the (Agency Name) Head, the Chief Financial Officer and the (Agency Name) Inspector General, or their designees, or ensure that they have been made aware of such matters through internal reporting mechanisms.
8. Annual Reporting. The committee shall submit an annual report to the Head of the Agency on the Committee's activities and recommendations.
9. Access to Government Information, (Agency Name) Officials and Independent Public Accountant. The Committee has the authority to: i) review and analyze (Agency Name) records that pertain to the committee's objectives; and ii) meet with agency officials or the independent public accountant as necessary to carry out their duties.
- 9.1. Government Information. (Agency Name) records that pertain to the committee's objectives include but are not limited to: i) audit reports; ii) Agency financial statements, iii) Agency Budgets; iv) documents containing agency financial data; and v) other documents outlining financial reporting procedures or other internal procedures. The committee may not access records containing individual information, such as personnel records, individual financial records or other proprietary information protected under the Privacy Act 5 USC paragraph 552B or under the "Government in the Sunshine," Act 5 USC paragraph 522a, unless (Agency Name) determines that the disclosure of the information is

necessary for the committee to carry out its duties and **(Agency Name)** fully complies with applicable laws and regulations.

9.2. **(Agency Name) Officials.** The committee may meet with and seek information from agency officials, including the heads of components, the Chief Financial Officer, the Inspector General, other members of management and staff.

9.3. **Independent Public Accountant.** Committee members may meet with and seek information from the independent public accountant of the Agency's financial statements. Committee members may attend the entrance and exit conferences for the annual financial statement audit. At least once per year, the Committee should meet privately with the independent public accountant solely to gather information, conduct research or analyze relevant issues and facts in preparation for a full Committee meeting.

10. Confidential Information. The Committee may have access to confidential government information to form the basis of their recommendations and advice to **(Agency Name)** officials. **(Agency Name)** records containing confidential government information may be available to the committee for inspection only. The committee may not copy, publish or distribute any confidential government information, and will not become part of the Committee's formal reports, annual report or official record. The committee members shall sign a confidentiality agreement binding them to the same standards as **(Agency Name)** officials.

11. Duties. In accordance with the committee's objective, the committee may perform the following functions and make recommendations accordingly:

11.1. Financial Reporting Process.

11.1.1. Review with management the financial statements and consider whether they are complete and consistent with public information and Agency records;

11.1.2. Review with management other sections of the Performance and Accountability Report and consider the accuracy, consistency and completeness of the information;

11.1.3. Review plans and progress for the improvement of financial management processes and systems;

11.1.4. Review financial results and performance measures to evaluate progress in achieving financial management objectives and identify areas of risk or concern.

11.2. Systems of Internal Controls.

- 11.2.1. Review (**Agency Name**) process for assessing the effectiveness of internal controls, the adequacy of management's assessment, and the progress in resolving material weaknesses, audit follow up actions, and other management challenges and control issues;
- 11.2.2. Evaluate the reasonableness of proposed actions for correcting material weaknesses;
- 11.2.3. Review major changes to the (**Agency Name**) accounting principles and practices as suggested by management or the independent public accountant.

11.3. Audit Process.

- 11.3.1. Advise and consult with the Office of the Inspector General regarding their plan for the audit of the Agency's financial statements, including the audit approach, auditor's responsibilities, and timelines for completing the Agency audit;
- 11.3.2. Review qualitative issues pertaining to the audit of the Agency's financial reporting, including: i) significant accounting policies, ii) management's judgments and estimates used; iii) indicators of fraudulent financial reporting or misappropriation of assets; iv) audit adjustments; v) disagreements between the auditors and management; and vi) any other difficulties the independent public accountant encountered in performing the audit;
- 11.3.3. Review audit results with the independent public accountant including recommendations, management responses, and progress in implementing corrective actions;
- 11.3.4. Consult with the Designated Federal Officer and advise management and the Office of the Inspector General of any disclosed relationships or services that may impact the objectivity and independence of the contracted financial statement auditors.

11.4. Process for Monitoring Compliance with Laws and Regulations.

- 11.4.1. Review: i) Agency compliance policies; ii) procedures for monitoring adherence to Agency compliance policies; iii) material reports or inquiries received from Congressional oversight committees; and iv) other significant compliance matters which may have a material impact on (**Agency Name**) financial statements.

11.4.2. Review management's plans for procuring financial management consulting services during the coming year, considering the types of services and projected fees for such services.

Other.

11.4.3. Determine the areas in which it wishes to receive further information from management or the independent public accountant; and

11.4.4. Perform other activities related to this charter as requested by the Agency Head.

12. Costs. The estimated annual costs are \$XX,XXX. The costs include support staff of one full time equivalent (FTE), plus time spent by other Office of the Chief Financial Officer staff. The costs will be paid by the Office of the Chief Financial Officer. Members of the committee serve without compensation.

12.1. Reimbursed Travel. **(Agency Name)** will reimburse the committee members residing outside of the Washington, D.C. metropolitan area, or for whom said area is not their regular place of business, for travel expenses, including per diem, to the extent authorized by 5 U.S.C.A paragraph 5703 and SOP 20 11 5 (Travel). **(Agency Name)** will allow the committee's members to fly coach class only and each member normally must travel from, and return to, the member's place of residence.

12.2. Miscellaneous Costs. Annual costs also include miscellaneous operating costs related to the committee activities. Except as expressly stated above, **(Agency Name)** shall not be responsible for any expenses incurred by, or on behalf, of the committee members as a result of their application to, membership in, and activities on behalf of the committee.

13. Meetings. The committee will meet at least 4 times a year, to coincide with specific management activities. Full meetings must be held for the following purposes: i) to present formal reports; ii) to receive oral or written statements from Committee members, **(Agency Name)** officials, the Inspector General or members of the public; iii) to discuss policy matters arising from their information gathering activities; and iv) to make recommendations directly to **(Agency Name)** officials or the Inspector General.

13.1. Call for Meetings. The Designated Federal Officer, in consultation with the Inspector General, will call the meeting and set the date, place and agenda, or approve meetings and agendas proposed by the Chairperson.

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- 13.2. Open Meetings. With some exceptions, the committee meetings shall be open to the public, held at a reasonable time in a reasonably accessible manner and place. The Agency Head, the Inspector General, or their designees, and the independent public accountant shall be invited to attend each meeting. The Chairperson or the Designated Federal Officer may invite other (**Agency Name**) employees to the Committee's meetings.
- 13.3. Closed Meetings. Meetings may be closed to the public when the Agency Head determines that a closed or partially closed meeting is proper and consistent with the provisions in the "Government in Sunshine Act", 5 USC paragraph 552b (c), and Federal Advisory Committee Act. To request a Committee meeting that will be closed to the public, the Designated Federal Officer must follow procedures set forth in 41 CFR paragraph 102-3.155.
- 13.4. Minutes. The Committee shall establish a formal record of all the proceedings, both open and closed meetings, and decisions through minutes, in accordance with 41 CFR paragraph 102-3.165. The Chairperson must certify the accuracy of the minutes of the committee's meetings.
14. Annual Review. The committee, in consultation with the Designated Federal Officer, shall review this charter annually and propose amendments to the Head of (**Agency Name**) as necessary to meet the Committee's objectives.
15. Filing Date. The date of the filing of this charter is (**Day, Month, Year**).

Appendix D. Sample Financial Audit Advisory Committee Charter

(Agency Name) Financial Audit Advisory Committee Charter

Purpose. The (Agency Name) Financial Audit Advisory Committee (the Committee) is responsible for reviewing (Agency Name) financial results, audit reports, internal controls, and adherence to laws, regulations and financial accounting standards. The Committee will assist (Insert Reporting Component) in fulfilling oversight responsibilities by reviewing the financial reporting process, the system of internal control, accounting policies and procedures, the audit process and by overseeing the relationship with the independent public accountant. The committee should keep an open line of communication between (Insert Reporting Components), independent public accountant, and (Agency Name) financial management.

Organization. The Committee will be composed of at least three or no more than five members who are not (Agency Name) employees, are independent of management, and are free of any relationship that would interfere with the exercise of independent judgment as a Committee member.

Financial Audit Advisory Committee members are appointed for a two-year tenure. One of the representatives will be designated as the Committee Chairperson.

The members of the Committee must each be financially literate, and at least one member must have accounting or financial management expertise.

Roles and Responsibilities. The mission of the Committee is to provide an open avenue of communication between the top (Agency Name) leadership and the independent public accountant, financial and senior management, counsel, and the internal audit function. The Committee will assist (Agency Name) in meeting its objectives by:

1. Ensuring the timely submission of critical audit documents such as the management representation letter, the legal representation letter, and the financial statements to the independent public accountant.
2. Ensuring adherence to Government Auditing Standards.
3. Reviewing audit contract deliverables.
4. Ensuring a consistent interpretation and application of accounting standards and policies as they relate to the (Agency Name).
5. Reviewing and providing alternatives to resolve any significant disagreements between the auditors and management.
6. Reviewing the overall results of the financial statement audits and identifying actions necessary to correct the deficiencies.

-
7. Reviewing the results of the independent assessment of those line items or financial statements that have been asserted as audit ready by management to determine whether specific deficiencies identified and recommendations are appropriate.
 8. Reviewing the scope of the independent public accountant's proposed audit for the current year and reviewing the annual audit report, which is subsequently produced.
 9. Following each meeting, reporting on the proceedings of the Committee to Agency management.
 10. Reassessing the adequacy of the Committee charter annually.

Support Staff. The work of the Committee will be the responsibility of its members. The Office of (**insert responsible office**) will provide administrative and technical support to the Committee. The support will include: (1) scheduling meetings; (2) preparing agendas; (3) preparing background materials, briefing slides; and (4) preparing minutes of the meetings.

Working Groups. The Committee may establish working groups or sub-groups of its members and others as necessary to advise it on a range of accounting and auditing issues that come before it.

Committee Expectations. The Committee must understand the appropriateness and application of federal accounting concepts and practices. The Committee must fulfill its fiduciary responsibilities, understand the operations of the (**Agency Name**), stay abreast of the current financial statement issues, and monitor the audit process. The committee should provide recommendations and guiding principles for improving the effectiveness of the financial statement process and overall business operations.

The Committee will consider management's response to the risks inherent in the (**Agency Name**) and incorporate them into its agenda. Understanding the (**Agency Name**) financial statement process is crucial for committee members who will oversee the financial integrity of the (**Agency Name**).

The following guiding principles have been applied in developing the substantive content of the Committee charter:

- Establish the Committee's role in monitoring the audit process;
- Encourage independent communication and information flow between the Committee and the independent public accountant; and
- Conduct candid discussions with (**Agency Name**) management and the independent public accountant regarding issues affecting the judgment and quality.

Audit Committee Meetings:

Meeting Frequency. The Committee meetings will be scheduled monthly or as determined by the committee during the performance of the audit to ensure prompt resolution of issues. Any committee member may request a special meeting whenever issues surface which require immediate discussion. Matters can be referred to the

Committee by members, or by a member of the **(Agency Name)** financial management organization. The referral must be in writing and clearly describe the accounting or audit issue.

Meeting Agenda. The **(insert responsible office)** will be responsible for scheduling the Committee meetings and preparing the agenda. Prior to a normally scheduled meeting, that office will circulate a tentative agenda for review and comment. The tentative agenda will propose the time, discussion topics, and location. To facilitate the development of the agenda and to stay abreast of recent developments, the committee chairperson should communicate with the independent public accountant between meetings to discuss pertinent accounting and audit issues.

A comprehensive agenda guides members in focusing on their mission. The Committee will assess what is currently important and develop its agenda accordingly. The following topics deserve consideration:

Risk Assessment

- Review of financial community expectations
- Legal briefings

Assess Process Relating to Control Environment

- Financial statements
- Management overview of financial results for the year
- Accounting policies
- Significant and unusual transactions and accounting estimates

Evaluate the Independent Audit Processes

- Coordination of the independent audit effort and definition of responsibilities
- Assist in defining the scope, procedures, reports, and timing of the audit effort by the independent public accountant.

Audit Committee Structure

- Update of the charter
- Assessment of the Committee performance

Working Relationships:

Relationship with Management. To be able to perform its duties, the Committee must receive timely information. The Committee should be aware of the **(Agency Name)** strategic financial objectives, the procedures implemented to accomplish them, and regular evaluations of progress toward meeting these objectives. Frequent communication with management will be maintained to assist the auditors with evaluating the environment of the **(Agency Name)** financial reporting.

Working with the Auditors. The Committee's relationship is important because it provides the auditors with an independent assessment of the external reporting requirements and the **(Agency Name)** internal systems. The Committee may request and evaluate the results of special projects and review audit results to ensure that the **(Agency Name)** complies with accounting standards. The Committee members should keep their respective communities advised of pertinent issues under consideration. The Committee acts in an advisory role to the Head of the **(Agency Name)**.

Appendix E. Sample Committee Charter Evaluation Checklist

Number	Source	Responsibility	Action
1	Charter Page 1, Para. 2	Review and update charter annually	Reviewed at 4/03/2006 committee meeting
2	Charter Page 2, Para. 1	Generally assist the Agency with oversight of the following:	
		- financial statements and financial reporting process	Reviewed interim or final financial results at 5 committee meetings
		- systems of internal controls	Specifically address by the independent public accountant at 2 committee meetings
		-Inspector General's audit function	Specifically addressed by OIG on 9/12/2006
		-compliance with legal and regulatory requirements	Specifically addressed in executive session on 11/14/2006
		-annual independent audit of financial statements	The independent public accountant provided an unqualified opinion in 11/15/2006
3	Charter Page 2, Para. 1	Maintain free/open communication with the independent public accountant, IG, and Management	The independent public accountant, IG, CFO, and General Counsel attend every committee meeting
4	Charter Page 2, Para. 3	Oversee financial reporting process, report to the Agency	Chairperson presents a report to the Agency on each committee meeting
5	Charter Page 2, Para. 3	Set tone for sound business practice/ethical behavior	Committee meetings are formal; the independent public accountant, IG, General Counsel at each meeting.
6	Charter Page 3, Para. 1	Establish a clear understanding that auditors report to the Agency Head	Completed at 11/14/2006 meeting
7	Charter Page 3, Para. 1	Review auditors performance and make recommendations to the Agency	Completed at 11/14/2006 meeting
8	Charter Page 3, Para. 2	Discuss OIG's audit plans, staffing, budget	Completed at 09/12/2006 meeting
9	Charter Page 3, Para. 2	Discuss propriety of accounting treatments	Completed at 11/16/2006 meeting
10	Charter Page 3, Para. 2	Review adequacy/effectiveness of accounting and financial controls	Completed at 11/14/2006 meeting
11	Charter Page 3, Para. 2	Review systems to monitor and manage risk	Completed at 11/14/2006 meeting
12	Charter Page 3, Para. 2	Meet with OIG and the independent public accountant without management present	Completed at 11/14/2006 meeting
13	Charter Page 3, Para. 2	Invite OIG and the independent public accountant to address the Committee	Completed at 11/14/2006 meeting
14	Charter Page 3, Para. 3	Review interim financial results	Reviewed at 3 committee meetings
15	Charter Page 3, Para. 3	Discuss any communications required by GAAP	Completed at 11/14/2006 meeting

Number	Source	Responsibility	Action
16	Charter Page 4, Para. 1	Review audited financial statements with management, OIG, and the independent public accountant	Completed at 11/14/2006 meeting
17	Charter Page 4, Para. 1.	Discuss quality, propriety and clarity of statements	Completed at 11/14/2006 meeting
18	Charter Page 4, Para. 1	Discuss annual audit with the independent public accountant	Completed at 11/14/2006 meeting
19	Charter Page 4, Para. 1	Hold regular meetings	7 meetings held in 2006
20	Charter Page 4, Para. 1	Review auditor's annual audit plan	Completed at 3/28/2006 committee meeting

Appendix F. Sample Committee Member Appointment Letter

Member Name
Address

Date

Dear Mr./Ms. XXXX:

You have been selected to participate on the **(Agency Name)** Financial Audit Advisory Committee. The committee looks forward to your expertise, support, and active participation during this year's audit. For your information, a copy of the Financial Audit Advisory Committee Charter is enclosed. The charter provides guidance on the purpose and responsibilities of the committee and its members.

We look forward to the level of **(Agency Name)** experience and professional work ethics that you bring to the audit process. If you have any questions or concerns throughout the year, please contact, **(Insert Name and Contact Information)**.

Sincerely,

(Signature)

Enclosure:
As stated

Appendix G. Sample Committee Annual Activity Checklist

Responsibility	Frequency	Jan-March Quarter	April-June Quarter	July-Sept Quarter	Oct-Dec Quarter
Committee Meetings					
1. Schedule meetings for the fiscal year.	Annually				X
2. Review and approve meeting minutes.	Quarterly	X	X	X	X
3. Meet in Executive session with:	Annually		X		
Chief Financial Officer	Semi-Annually	X		X	
Internal Auditor	Semi-Annually	X		X	
Independent Public Accountant	Semi-Annually	X			X
Committee Members	Semi-Annually	X		X	
Inspector General	Semi-Annually	X			X
Others, as appropriate					
Oversight of the Independent Public Accountant	Annually	X			
1. Provide input regarding the selection of the independent public accountant.					
2. Meet with the independent public accountant to obtain an understanding of factors considered by them in determining audit scope.	Annually		X		
3. Determine and approve extent of any nonaudit services.	As necessary				
4. Review with the independent public accountant the firm's internal quality control procedures, any material issues raised during most recent peer review, and any corrective actions taken.	Annually		X		
5. Review and evaluate the independent public accountant's independence.	Annually	X			
6. Review with the independent public accountant any problems or difficulties that they may have encountered in connection with the audit.	Annually				X
7. Discuss with the independent public accountant and management scope and quality of internal controls in effect.	Annually				X
8. Review any management letter or other material communications from the independent public accountant and management's response to that communication.	Annually				X

Responsibility	Frequency	Jan- March Quarter	April- June Quarter	July-Sept Quarter	Oct-Dec Quarter
Oversight of Financial Statements					
1. Obtain Draft financial statements for review and approval	Annually				X
2. Review with management and external auditors draft financial statements to include: -Significant transactions outside ordinary operations -Changes to accounting principles -Material correcting accounting adjustments -Process in formulating accounting estimates -Risk assessment and risk management	Annually			X	
3. Review with General Counsel current or pending litigation	Annually			X	X
Agency Oversight					
1. Review and approve annual internal audit plan identifying audit scope and coverage.	Annually			X	
2. Obtain briefings on internal audit activities.	Quarterly	X	X	X	X
Risk Management					
1. Obtain an understanding of the agency's internal control and risk management policies.	Annually	X	X	X	X
2. Discuss with management the organization's major risk exposures, the adequacy of accounting and financial controls, and steps management has taken to monitor and control such exposures.	Annually		X		
3. Review and approve updated internal risk assessment model	Annually		X		

Appendix H. Sample Audit Preparedness Committee Self-Evaluation Questionnaire

Audit Preparedness Committee Self-Evaluation Questionnaire

The following series of statements is designed to obtain your comments regarding the performance of the Committee as a group. It is intended to enhance the Committee's overall effectiveness. Please indicate your responses to the statements, by circling the appropriate number, using the following scale:

- 1 – Strongly Agree
- 2 – Agree
- 3 – Undecided
- 4 – Disagree
- 5 – Strongly Disagree

<u>Evaluation Questions</u>		<u>Recommendation for Improvement</u>
1. The Committee functions efficiently and effectively.	1 2 3 4 5	_____
2. The Committee effectively oversees the internal auditors, independent public accountants, and consultants	1 2 3 4 5	_____
3. The Committee understands the organization's internal control and risk management policies.	1 2 3 4 5	_____
4. The Committee is both sufficiently challenging and supportive of management.	1 2 3 4 5	_____
5. The Committee appropriately reviews the quarterly financial statements.	1 2 3 4 5	_____
6. The Committee has the appropriate number of meetings per year.	1 2 3 4 5	_____

-
7. The Committee is satisfied with the materials received in advance of and at Committee meetings. 1 2 3 4 5 _____
8. The time at the Committee meetings is utilized effectively. 1 2 3 4 5 _____
9. The appropriate agency personnel and outside experts are present at Committee meetings. 1 2 3 4 5 _____

Additional Comments

Are there any topics not covered in this questionnaire that you feel should be addressed to evaluate the Committee's performance?

Committee Member's Name (optional)

Date

Appendix I. Resources for Committees

American Institute of Certified Public Accountants (www.aicpa.org)
Audit Committee Effectiveness Center (www.aicpa.org/audcommctr)
Antifraud and Corporate Responsibility Resource Center (www.aicpa.org/antifraud)
Association of Certified Fraud Examiners (www.cfenet.com)
Association of Government Accountants (www.agacgfm.org)
Committee of Sponsoring Organizations of the Treadway Commission (www.coso.org)
Ethics Officers Association (www.eoa.org)
Ethics Resource Center (www.ethics.org)
Institute of Internal Auditors (www.theiia.org)
Institute of Management Accountants (www.imanet.org)
IT Governance Institute (www.itgi.org)
KPMG Audit Committee Institute (www.kpmgauditcommitteeinstitute.com)
National Association of College and University Business Officers (www.nacubo.org)
National Association of State Auditors, Comptrollers and Treasurers (www.nasact.org)
U.S. Government Accountability Office (www.gao.gov)
U.S. Office of Management and Budget (www.whitehouse.gov/omb/index.html)

Resources for Corporate Governance and Publicly Traded Company Audit Committees

American Society of Corporate Secretaries (www.acsc.org)
Business Roundtable (www.brtable.org)
Conference Board (www.conference-board.com)
Corporate Board Member (www.boardmember.com)
Financial Executives International (www.fei.org)
Harvard Business School's Corporate Governance, Leadership & Values (www.cglv.hbs.edu)
National Association of Corporate Directors (www.nacdonline.org)
New York Stock Exchange (www.nyse.com)
The Corporate Library (www.thecorporatelibrary.com)

Appendix J. References

KPMG, LLP, “Financial Management Advisory Committees for Federal Agencies, Suggested Practices,” March 2003

AICPA Web site, “The AICPA Audit Committee Toolkit: Government Organizations”

The Gallup Organization for General Services Administration Office of Government-wide Policy Best Practices Report, “Advisory Committee Engagement Survey,” March 2005

The CPA Journal, “Can Audit Committees Prevent Management Fraud?,” January 2007

The Institute of Internal Auditors, “The Audit Committee: Purpose, Process, Professionalism”

The Institute of Internal Auditors, “Internal Auditor’s Role in Corporate Governance,” 2003

Deloitte and Touche, “Keeping Directors on Course, Audit Committees, a Better Practice Guide,” 2004

Deloitte and Touche, “Audit Committee Resource Guide”, 2003

Australian National Audit Office, “Public Sector Audit Committees, A Better Practice Guide,” 2005

PriceWaterhouseCoopers, “Current Developments for Audit Committees,” 2006

Report of the National Commission on Fraudulent Financial Reporting (COSO), 1987

Federal Advisory Committee Act, 5 USC, Appendix 2, October 1972

Appendix K. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Director, Defense Procurement and Acquisition Policy
Under Secretary of Defense (Comptroller)/Chief Financial Officer

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army
Commander, United States Army Corps of Engineers

Department of the Navy

Commandant, United States Marine Corps
Assistant Secretary of the Navy (Financial Management and Comptroller)
Naval Inspector General
Auditor General, Department of the Navy
Commander, Navy Exchange Service
Commander, Naval Installations Command
Director, Personal and Family Readiness Division,
Headquarters, United States Marine Corps

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Advanced Research Projects Agency
Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, Missile Defense Agency
Director, Defense Commissary Agency
Director, Defense Finance and Accounting Service
Director, Defense Contract Management Agency
Director, Tricare Management Activity



Inspector General Department of Defense

